TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Update on State Legislation ITEM NUMBER: 9a

ATTACHMENT(S): 14

ACTION: X MEETING DATE: May 4, 2000

INFORMATION: ___ PRESENTER: Ed Derman

SUMMARY

Staff has prepared the attached analyses and recommended positions on the following measures for the Board's consideration.

Attachment	Bill Number	Author	Subject
1	AB 141	Knox	Expands earnings limit for vacant administrative positions
2	AB 1733	Wildman	Eliminates earnings limit exemption
3	AB 1736	Ducheny	Earnings limitation exemption for K-12 remedial education
4	AB 1933	Strom-Martin	Rule of 85/Career Bonus
5	AB 2100	Dutra	Posting information on the Internet
6	AB 2201	Honda	Highest year final compensation, compounded COLA, 2% at age 55, 80% purchasing power and Board elections
7	AB 2456	Wright	Deferred Retirement Option Program
8	AB 2839	Firebaugh	2% at age 55 retirement formula
9	SB 1505	Alarcon	Earnings limitation exemption for K-12 teachers
10	SB 1693	Ortiz	80% purchasing power payments
11	SB 1694	Ortiz	CalSTRS/CalPERS membership election for state employees
12	SB 2105	Lewis	Reporting for charter schools

13	SCA 16	Burton	Legislative approval of CalSTRS support budget
14			Legislative Summary

Mr. Derman will provide an overview of the update on state legislation.

Assembly Bill 141 **Assembly Member Knox (As amended 4/4/00)**

Position: **Support (Staff recommendation)**

Proponents: **CASBO (Sponsor)**

Opponents: **Unknown**

SUMMARY

AB 141 extends the current exemption from the earnings limitation for retired members of the California State Teacher Retirement System's (CalSTRS) Defined Benefit (DB) Program who are employed on an emergency basis to fill an administrative position vacated due to circumstances beyond the control of the employer. The extension could equal one-half of a full-time equivalent for the position, and applies to the 1999-2000 school year and 2000-2001 school year through December 31, 2000.

HISTORY

Chapter 1, Statutes of 1997 (AB 18—Mazzoni) retroactively made operative the provisions of Chapter 948, Statutes of 1996 (AB 1068—Mazzoni). These bills exempted from the earnings limit members who retired on or before July 1, 1996 and were subsequently hired to alleviate the teacher shortage caused by the passage of the Class Size Reduction Program in Grades K-3.

Chapter 965, Statutes of 1998 (AB 2765—Assembly PER&SS) extended the exemption for class size reduction to members who retired on or before July 1, 1998 and extended the sunset date to July 1, 2002.

Chapter 40, Statutes of 1999 (AB 335—Mazzoni) extended the existing earnings limitation exemption for retired teachers who returned to the classroom as a result of the K-3 Class Size Reduction Program to include the recently authorized Grade 9 class size reduction program and future expansions of the class size reduction programs authorized by Part 28 of the Education Code.

AB 81 (Cunneen) would have exempted from the earnings limit members who retired for service on or before July 1, 1998 if they were subsequently employed by a high school to teach math or science. AB 81 failed passage in the Assembly Revenue and Taxation Committee.

AB 1733 (Wildman) eliminates the earnings limit.

AB 1736 (Ducheny) exempts from the earnings limit a member who retired on or before July 1, 2000 and who is employed to provide direct remedial instruction to pupils in K-12 education.

SB 1505 (Alarcon) suspends for five years the statutory earnings limitation for CalSTRS members who (1) retired on or before January 1, 2000 and (2) return to K-12 schools or County Offices of Education to provide direct classroom instruction or to provide support for various programs, such as student interns or the Beginning Teacher Support and Assessment Program.

CURRENT PRACTICE

Current law permits a member who retired for service to earn compensation of up to $19,050 for creditable service during the 1999-2000 school year, without a reduction in the retirement allowance. The limit is indexed annually to increases in the All-Urban California Consumer Price Index. In 2000-01, the earnings limit increases to $19,650. Any creditable earnings in excess of this amount result in a dollar-for dollar reduction in the retirement allowance up to the annual allowance. Existing exemptions from the earnings limitation include the following:

- A member who retired for service and performs additional service under the following conditions:

    1. The member is appointed by the Superintendent of Public Instruction or county superintendent of schools to serve as a trustee or an administrator. This exemption is available for a maximum of two years and sunsets on July 1, 2003.

    2. The member is employed on an emergency basis to fill an administrative position that requires specialized skills and is vacated due to circumstances beyond the control of the employer. In order to receive the exemption, the employment must be reported in a public meeting and the recruitment process to fill the position on a permanent basis must be expected to extend over several months. This exemption also sunsets on July 1, 2003.

- A member who retired for service on or before July 1, 1998, and is employed either to (1) provide direct classroom instruction to in any statutorily authorized class size reduction program or (2) temporarily fill a position vacated by a teacher who transferred to a classroom in the same district because of the Class Size Reduction Program. This exemption, which sunsets on July 1, 2002, is subject to the following conditions:

    1. The member is treated as part of a distinct class of temporary employees within the existing bargaining unit.

    2. The employing school district submits documents to CalSTRS to substantiate the eligibility of the member for the exemption.

DISCUSSION

AB 141 extends the earnings limit up to an additional 50 percent of a full time equivalent (FTE) for retired members who are employed to fill an administrative position that is vacant for reasons beyond the employers' control. For a member to be eligible for the proposed extension, this vacancy cannot have been filled previously by any retired member who received an exemption pursuant to this proposed provision. Although AB 141 would apply to any school district, the operative dates (July 1, 1999 through December 31, 2000) will probably restrict the application to a few school districts. In 1998-99, only 165 exemptions for vacant administrative positions were granted. As a result, the number of exemptions given an additional exemption under this bill would likely be very small.

FISCAL IMPACT

<u>Benefit Program Costs</u> **–** This proposal will have no actuarial impact on the system because the valuation of the DB Program assumes that members do not work beyond the earnings limit. To the extent that members earn compensation in excess of the limit, the resulting reduction in CalSTRS benefits could result in an unanticipated actuarial gain to the program. Extending the earnings limit exemption for the limited period of time would result in the system foregoing that actuarial gain. Because the provision probably would apply to very few members, that foregone gain probably would not be significant.

<u>Administrative Costs</u> **–** This bill will result in minor, if any, implementation costs.

RECOMMENDATION

Support. The Board has historically supported legislation that temporarily exempts members from the earnings limit if the member is filling a position that has a demonstrated difficulty in being filled.

Assembly Bill 1733 **Assembly Member Wildman (As amended 3/30/00)**

Position: **Support, if amended (Staff recommendation)**

Proponents: **CTA (Sponsor)**

Opponents: **Unknown**

SUMMARY

AB 1733 eliminates the earnings limit for California State Teachers' Retirement System (CalSTRS) members who retired for service.

HISTORY

Chapter 1, Statutes of 1997 (AB 18—Mazzoni) retroactively made operative the provisions of Chapter 948, Statutes of 1996 (AB 1068-Mazzoni). These bills exempted the earnings limit members who retired on or before July 1, 1996 and were subsequently hired to alleviate the teacher shortage caused by the passage of the Class Size Reduction Program in Grades K-3.

Chapter 965, Statutes of 1998 (AB 2765—Assembly PER&SS) extended the exemption for class size reduction to members who retired on or before July 1, 1998 and extended the sunset to July 1, 2002. It also extended until July 1, 2003 (1) an exemption for members appointed as a trustee or administrator by the Superintendent of Public Instruction or assigned by the Superintendent or (2) employed to fill on an emergency basis an administrative position that was vacated due to circumstances beyond the control of the employer.

Chapter 40, Statutes of 1999 (AB 335—Mazzoni) extended the existing earnings limitation exemption for retired teachers who returned to the classroom as a result of the K-3 Class Size Reduction Program to include the recently authorized Grade 9 class size reduction program, and future expansions of the class size reduction programs authorized by Part 28 of the Education Code.

AB 81 (Cunneen) would have exempted from the earnings limit members who retired for service on or before July 1, 1998 if they were subsequently employed by a high school to teach math or science. AB 81 failed passage in the Assembly Revenue and Taxation Committee.

AB 141 (Knox) extends for an additional six months the current exemption from the earnings limitation for retired members who are employed on an emergency basis to fill an administrative position that is vacated due to circumstances beyond the control of the employer.

AB 1736 (Ducheny) exempts from the earnings limitation members who retired on or before July 1, 2000 and return to the classroom to provide direct remedial instruction to pupils in K-12, inclusive.

SB 1505 (Alarcon) suspends for five years the statutory earnings limitation for CalSTRS members who (1) retired on or before January 1, 2000 and (2) return to K-12 schools or County Offices of Education to provide direct classroom instruction or to provide support for various programs, such as student interns or the Beginning Teacher Support and Assessment Program.

CURRENT PRACTICE

Current law permits a member who retired for service to earn compensation of up to $19,050 for creditable service during the 1999-2000 school year, without a reduction in the retirement allowance. The limit is indexed annually to increases in the All-Urban California Consumer Price Index. In 2000-2001, the earnings limit will be $19,650. Any creditable earnings in excess of this amount result in a dollar-for dollar reduction in the retirement allowance up to the annual allowance. There are exemptions from this limit, including:

- A retired member who retired for service and who is appointed as a trustee or administrator. This exemption sunsets on July 1, 2003.
- A retired member who is employed on an emergency basis to fill an administrative position. This exemption also sunsets on July 1, 2003.
- A retired member who retired for service on or before July 1, 1998, and is employed either to (1) provide direct classroom instruction to in any statutorily authorized class size reduction program; or (2) temporarily fill a position vacated by a teacher who transferred to a classroom in the same district because of the Class Size Reduction Program. This exemption, which sunsets on July 1, 2002, is subject to the following conditions:

    1. The member must be treated as part of a distinct class of temporary employees within the existing bargaining unit.
    2. The employing school district must submit documents to CalSTRS to substantiate the eligibility of the member for the exemption.

DISCUSSION

The requirements of the CalSTRS earnings limit are necessary, among other reasons, to ensure compliance with federal tax law, which prohibits tax-qualified plans, such as the CalSTRS Defined Benefit (DB) Program, from paying benefits to members who are working under the retirement system. If the DB Program lost its tax qualified status, both CalSTRS and the CalSTRS members would be liable for income tax for the investment earnings of the program.

The current earnings limit of $19,050 represents approximately one-half of the average earnable salary in California for CalSTRS members, which, as of June 30, 1999 was approximately $45,000. If the earnings limit is repealed, the tax-qualified status of the DB Program could be jeopardized because members could “retire” in the future and immediately return to work, which could determine to be inconsistent with the federal law. The bill should be amended to eliminate that increased jeopardy.

There are two potential options available to address this problem. For example, if a retired member is beyond the normal retirement age of age 60 and returns to work, any amount of earnings probably would not jeopardize the tax qualified status of the DB Program. Alternatively, a one-year break in service between the time of retirement and the time of return to service would also provide an appropriate degree of assurance that the member had in fact retired before returning to service.

This bill may encourage early retirement because eliminating the earnings limitation will make it possible for a retired member to receive a retirement allowance and salary that exceed the total compensation this member received before retiring. If the elimination in the limit did encourage an earlier retirement, this would result in an actuarial cost to the program because the program will have fewer years to collect and invest contributions for the benefit. Although a similar but lesser effect would occur if the bill was amended to apply only to members who retired after age 60, this fiscal effect would largely be eliminated if the bill was amended to require the member to wait a year after retirement before becoming eligible.

Although eliminating the earnings limit could encourage an earlier retirement due to an initial total increase in income, this short-term gain to the member may come at the expense of long-term increase in the retirement allowance the member would have realized if he or she continued to work to a later age and earned additional service credit. When the member is no longer able to work, he or she will receive only the original service retirement allowance, as opposed to the higher benefit the member would have received by earning additional service credit.

FISCAL IMPACT

<u>Benefit Program Costs</u> – To the extent that eliminating the earnings limitation encourages members to retire sooner, the bill will increase the actuarial cost to the DB Program. The actuary has not, however, calculated the magnitude of that cost. If eliminating the earnings limit has no impact on retirement behavior, there would be no actuarial impact on the program, because the actuarial valuation of the program assumes that members do not work beyond the earnings limit. To the extent such additional service does occur, the resulting reduction in allowance payments represents an actuarial gain. If the earnings limit was eliminated, and those allowance reductions no longer occurred, the program would forego that unanticipated actuarial gain, which has an estimated annual value of $1.2 million.

<u>Administrative Costs</u> – This bill will result in minimal one-time implementation costs. In addition, this bill would decrease the level of staff resources used currently to calculate and offset excess earnings by reducing future allowance payments. Other tasks, such as notifying retired members that they are approaching the earnings limit, would be eliminated.

RECOMMENDATION

Support, if amended to require at least a one-year waiting period prior to returning to work to be exempt from the earnings limit.

Assembly Bill 1736	**Assembly Member Ducheny (As introduced 1/6/00)**
Position:	**Support, if amended (Staff recommendation)**
Proponents:	**Unknown**
Opponents:	**Unknown**

SUMMARY

AB 1736 exempts from the earnings limit a member who retired on or before July 1, 2000 and who is employed to provide direct remedial instruction to pupils in K-12 education.

HISTORY

Chapter 1, Statutes of 1997 (AB 18—Mazzoni) retroactively made operative the provisions of Chapter 948, Statutes of 1996 (AB 1068—Mazzoni). These bills exempted from the earnings limit members who retired on or before July 1, 1996 and were subsequently hired to alleviate the teacher shortage caused by the passage of the Class Size Reduction Program in grades K-3.

Chapter 965, Statutes of 1998 (AB 276—Assembly PER&SS) extended the exemption to members who retired on or before July 1, 1998 extended the sunset date to July 1, 2002.

Chapter 40, Statutes of 1999 (AB 335—Mazzoni) clarified the existing earnings limitation exemption for retired teachers who returned to the classroom as a result of the K-3 Class Size Reduction Program to include the recently authorized Grade 9 class size reduction program and future expansions of the class size reduction programs authorized by Part 28 of the Education Code.

AB 81 (Cunneen) would have exempted from the earnings limit members who retired for service on or before July 1, 1998 if they were subsequently employed by a high school to teach math or science. AB 81 failed passage in the Assembly Revenue and Taxation Committee.

AB 141 (Knox) extends for an additional six months the current exemption from the earnings limitation for retired members who are employed on an emergency basis to fill an administrative position vacated due to circumstances beyond the control of the employer.

AB 1733 (Wildman) eliminates the earnings limit.

SB 1505 (Alarcon) suspends for five years the statutory earnings limitation for California State Teachers' Retirement System (CalSTRS) members who (1) retired on or before January 1, 2000 and (2) return to K-12 schools or County Offices of Education to provide direct classroom instruction or to provide support for various programs, such as student interns or the Beginning Teacher Support and Assessment Program.

CURRENT PRACTICE

Current law permits a member who retired for service to earn compensation of up to $19,050 for creditable service during the 1999-2000 school year, without a reduction in the retirement allowance. The limit is indexed annually to increases in the All-Urban California Consumer Price Index. In 2000-02, the limit increases to $19,650. Any creditable earnings in excess of this amount result in a dollar-for-dollar reduction in the retirement allowance up to the annual allowance. Existing exemptions from the earnings limitation include the following:

- A member who retired for service and who is appointed as a trustee or administrator or who is employed on an emergency basis to fill certain administrative positions. This exemption sunsets on July 1, 2003.

- A member who retired for service on or before July 1, 1998, and is employed either to (1) provide direct classroom instruction to in any statutorily authorized class size reduction program; or (2) temporarily fill a position vacated by a teacher who transferred to a classroom in the same district because of the Class Size Reduction Program. This exemption, which sunsets on July 1, 2002, is subject to the following conditions:

    1. The member is treated as part of a distinct class of temporary employees within the existing bargaining unit.
    2. The employing school district submits documents CalSTRS to substantiate the eligibility of the member for the exemption.

DISCUSSION

According to the author's office, AB 1736 will help to alleviate teacher shortages, but the primary intent of this bill is to address the low achievement level of students by providing retired teachers an incentive to reinstate in order to provide direct remedial instruction to pupils in K-12 inclusive. AB 1736 is intended to target a pool of qualified and experienced teachers to raise the academic performance of under-achieving students. The author's office did not present any documentation demonstrating a lack of qualified teachers for remedial education in K-12, but indicated this bill could help address the shortage of teachers in general, especially in light of the low test scores by students throughout California.

Although remedial instruction is offered at the community college level, this bill would not exempt earnings of retired members working in community colleges. The Chancellor's Office for community colleges did not have any information documenting a shortage of teachers for such purposes.

This bill permanently eliminates the earning limit for members who can earn compensation by providing remedial instruction in K-12, but only if they retire on or before July 1, 2000. As a result, AB 1736 would apply to teachers who have already retired and would not apply to those who retire in the future. This is consistent with the requirement imposed on members who are exempt from the earnings limit due to the class size reduction program, although the exemption for class size reduction expires in 2002. Staff anticipate that members who receive a full retirement benefit when they otherwise would have received a reduced benefit is relatively small. There are 1,733 retired members working under the class size reduction exemption in the current school year out of the 18,000 retired who currently are working. A total of 488 members have exceeded the earnings limit during the 1998-99 school year.

The Education Code currently does not define remedial instruction, although it is generally understood to mean supplemental instruction intended to bring students up to grade level achievement. In order to maintain consistency in how this exemption is applied, the bill should be amended to specify what constitutes remedial instruction.

FISCAL IMPACT

<u>Benefit Program Costs</u> – This proposal will have no actuarial impact on the system because the valuation of the Defined Benefit Program assumes that members do not work beyond the earnings limit. To the extent that members earn compensation in excess of the limit, the resulting reduction in CalSTRS benefits could result in an unanticipated actuarial gain to the program. Exempting members who retire prior to the bill's effective date for the limit would result in the system foregoing that actuarial gain. Staff anticipates that the foregone gain would not be significant.

<u>Administrative Costs</u> – This bill will result in minor and absorbable implementation costs.

RECOMMENDATION

Support, if amended to define remedial education.

Assembly Bill 1933 **Strom-Martin (As introduced 2/15/00)**

Position: **Support, if amended (Staff recommendation)**

Proponents: **CTA (Sponsor), LAUSD, UTLA, ACSA, CFT**

Opponents: **None known**

SUMMARY

AB 1933 permits a member of the California State Teachers' Retirement System (CalSTRS) who is at least age 55 to retire with a benefit equal to 2.4 percent of the member's final compensation, if the sum of the member's age and years of credited service equals or exceeds 85. This is referred to as the "Rule of 85". The bill also increases the career bonus for members retiring on or after January 1, 2001 with 29 years or more of credited service, and raises the limit of the age factor, when combined with both the current and proposed career bonuses, to 2.5 percent. Finally, this bill requires the Teachers' Retirement Board (Board) to conduct a study on the feasibility of paying pensions to members with a minimum retirement age based on years of service and final compensation, with no age factor, and to report its findings to the Legislature on or before July 1, 2001.

HISTORY

Rule of 85

The Rule of 85 has been introduced on a number of occasions, including:

- AB 1213 (1999) and AB 12X (1999), which failed to pass the Assembly;
- AB 88 (1998), which was vetoed;
- AB 1463 (1995), which failed to pass the Assembly;
- AB 449 (1993), AB 276 (1991), AB 122 (1989), and AB 3271 (1988), which were all vetoed.

Career Bonus

Chapter 1006, Statutes of 1998, (AB 1102 – Knox) provided a career bonus of .2 percent of final compensation per year of credited service up to a combined age factor and career bonus of 2.4 percent for members with 30 or more years of credited service who retire on or after January 1, 1999.

SB 39 (Baca), also would have increased the career bonus for members with 29 or more years of credited service. That bill failed to pass the Senate.

CURRENT PRACTICE

Currently, the CalSTRS retirement allowance is based on years of credited service, age at retirement, and final compensation. The normal retirement age under CalSTRS' Defined Benefit Program is age 60. At age 60, a member receives an allowance equal to 2 percent of final compensation for each year of credited service. The age factor increases .033 percent per additional year of age over 60, to a maximum of 2.4 percent at age 63. If a member retires earlier than age 60, the retirement allowance is reduced by one-half of one percent for each month the member is between age 55 and age 60. A member may retire as early as age 50 with 30 years of service credit. If a member retires earlier than age 55, the allowance is further reduced by one-quarter of one percent for each month the member is under age 55. A career bonus of .2 percent is added to the age factor, up to a combined age factor and career bonus of 2.4 percent, if the member has 30 years or more of credited service.

DISCUSSION

<u>Rule of 85</u> – AB 1933 provides a retirement benefit to members equal to 2.4 percent of final compensation per year of service to members who are at least 55 years old and whose age and years of service credit equal at least 85. There currently are about 22,600 members who would qualify for this benefit. Under the existing CalSTRS formula, a member's potential retirement allowance increases each year primarily due to the increased age factor. Members who retire under this provision of AB 1933 would not receive an increased benefit from an increase in age. To the extent that increasing a retirement benefit at higher retirement ages encourages members to defer retirement, AB 1933 may encourage members to take an earlier retirement..

<u>Career Bonus</u> – AB 1933 also increases the career bonus for members retiring on or after January 1, 2001 by applying it to members with 29 years of credited service and increasing the bonus after 30 and 31 years of credited service. In addition, AB 1933 increases the maximum percent of the age factor from 2.4 percent to 2.5 percent, when combined both with the current and proposed career bonuses. This may offset some of the early retirement incentive of the proposed Rule of 85. On June 30, 1999, there were 26,992 members who would have qualified for this enhanced benefit. The chart below illustrates the changes this bill would make by applying the career bonus at 29 years of credited service:

Years of Service Credit	Career Bonus	Final Career Bonus Under AB 1933
29	0	.1 %
30	.2 %	.3 %
31 +	.2 %	.4 %

Under current law, some service credit, such as nonqualified service, cannot be used to qualify for the career bonus because the career bonus is intended to reward actual service. As currently drafted, the bill does not exclude nonqualified service from determining eligibility for the enhanced bonus, but should be amended to do so. Other technical amendments to conform the proposal to the existing law also are required.

Service-Based Retirement – The bill also requires the board to conduct a study and prepare a report on the feasibility of basing pensions for its members on years of service and final compensation with no age factor, except for minimum retirement age. Currently, most defined benefit programs include age as a consideration in the benefit formula because the older the member is at retirement, the fewer years the member will receive the benefit. Increasing the percentage of final compensation as age increases, thereby increasing the monthly allowance, reflects the fact that the member will get a certain fixed amount of money, equal to the present value of the benefit, over a shorter period of time. Nonetheless, there are systems, such as the teachers' retirement systems in Alaska and in Louisiana that pay a benefit to members equal to a fixed percentage per year of service, once a member has performed a specified amount of service in the plan.

FISCAL IMPACT

Rule of 85

Benefit Program Costs – According to preliminary estimates by the actuary, the Rule of 85 would result in the following actuarial impact:

	Present value cost (in millions)	**Percent of pay to fund**
Normal cost increase of future service		0.523%
Actuarial obligation for prior service	$2,328	0.732%
Total costs during funding period	$3,989	1.255%

These estimates do not reflect potential changes in the rate of retirement, which may or may not occur as a result of the changes in the bill.

This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	2001-02	**2002-03**	**2003-04**
Total benefit payment increase	$6.2	$16.9	$29.3
Annual increase in contributions needed to fund benefit	$244	$255	$266

Career Bonus

Benefit Program Costs – According to preliminary estimates by the actuary, enhancing the career bonus would result in the following actuarial impact:

	Present value cost (in millions)	Percent of pay to fund
Normal cost increase of future service		0.479%
Actuarial obligation for prior service	$2,524	0.794%
Total costs during funding period	$4,046	1.273%

These estimates do not reflect potential changes in the rate of retirement, which may or may not occur as a result of the changes in the bill.

This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	2001-02	2002-03	2003-04
Total benefit payment increase	$6.5	$17.7	$30.5
Annual increase in contributions (funding) needed to fund benefit	$248	$258	$269

Administrative Costs – CalSTRS anticipates that it could absorb any increased administrative costs, (estimated to be less than $50,000) to implement the benefit increases in this bill. According to the CalSTRS consulting actuary, costs to complete the proposed study would cost an additional $25,000.

RECOMMENDATION

Support, if amended to identify a funding source. In addition, technical amendments are needed to conform the terms of the proposed career bonus enhancement to those applicable to the career bonus in existing law.

Assembly Bill 2100	**Assembly Member Dutra (As amended 3/29/2000)**
Position:	**Neutral, if amended (Staff recommendation)**
Proponents:	**Unknown**
Opponents:	**Unknown**

SUMMARY

AB 2100 establishes the California Internet Portal Management Authority within the Department of Information Technology (DOIT), under the direction of the Chief Information Officer of DOIT. The Authority would establish, administer, manage and maintain Internet policies for the State of California and would either post or direct a state agency to post information on the Internet if a State Budget appropriation is made directing the posting of specified information. This bill specifies, with certain exceptions, that after June 30, 2002, no state agency could post information on the Internet unless a proposal for posting has been approved by the Authority, and that all information be posted according to specified procedures. This bill also requires the development of regulations by the Authority for state agencies to collect fees electronically in lieu of cash or check.

HISTORY

In 1994, Governor Wilson created the Task Force on Government Technology Policy and Procurement, comprised of private sector information technology professionals. This task force conducted an expedited 60-day review of state information technology practices and agreed on a blueprint to reform the state's use and management of information technology.

SB 1 (Alquist), Chapter 508, Statutes of 1995, created the DOIT, which is responsible for the statewide coordination to the State of California's information technology and telecommunications system. DOIT is also responsible for ensuring that the state is receiving the maximum benefit from its nearly $2 billion annual investment in these technologies.

CURRENT PRACTICE

Currently, DOIT has general oversight of state information technology programs. The Secretary of State is required to issue and maintain rules and regulations for the use of digital signatures and maintains the Uniform Electronic Transactions Act. Existing law requires that numerous departments and agencies post specific information and content on the Internet. Under current law, the provisions of the Public Records Act and the Information Practices Act apply to statutes requiring or restricting specific Internet-related activities by state agencies. In addition, specific privacy and security guidelines apply to state agencies involved in Internet-related activities. The Citizen Complaint Act of 1997, which requires that specified complaint and comment forms be posted on the Internet; and the Grant Information Act of 1999, which requires that specific information regarding grant availability and eligibility to be posted on the Internet.

CalSTRS currently develops, administers and maintains its own Internet web site, and CalSTRS management approves the content of all material posted on the Internet. In addition, pursuant to the plenary authority granted the Teachers' Retirement Board under Proposition 162, CalSTRS does not report to DOIT.

CalSTRS does not receive any payments electronically, but does pay allowances electronically to about 90 percent of the CalSTRS members and beneficiaries receiving benefits.

DISCUSSION

According to the bill's author, AB 2100 "directly counters the 'stovepipe' approach to technology that we currently employ across [state] departments – where each department is responsible for its own technology and electronic government initiatives. He also argues that the implementation of "a single technological architecture, attached to a specific policy objective of improving citizen access and customer service" will increase efficiency and ease of use for government technology. In addition, the author believes that "cementing the role of the Legislature through the budgetary process" will solve the problems of access and confusion associated with public use of government technology.

Although the intent of AB 2100 is to coordinate and streamline government procedures on the Internet, CalSTRS has concerns about the potential consequences of this bill. Access to the CalSTRS website would be funneled through a single domain for the state of California. This transfer of responsibility could conflict with Proposition 162, which grants the board of a public retirement system the sole and exclusive authority over the administration of the system.

The provisions of AB 2100 would severely affect CalSTRS' current operations by transferring all control over any policy and/or administrative decisions regarding the CalSTRS website to DOIT. CalSTRS staff would be required to seek approval of any information placed on the CalSTRS website, which would delay significantly the posting of time sensitive information, such as the legislative weekly updates, Board agendas and other information of interest to CalSTRS members. If any information is added or changed, CalSTRS would need to submit a written proposal to the proposed Authority and wait a minimum of ten days. This approval process would significantly slow the delivery of information to CalSTRS members, which could adversely affect customer service.

The workload for CalSTRS staff would probably increase significantly because of the high number of proposals to obtain approval to post on the Internet information that changes often and rapidly.

FISCAL IMPACT

Benefit Program Costs – None.

Administrative Costs – Although CalSTRS would not be required to accept payments by electronic means under this bill, new accounting procedures would have to be developed and implemented to facilitate the receipt of electronic payments, resulting in one-time and minor on-going costs.

RECOMMENDATION

Neutral, if amended to exclude CalSTRS from the bill's requirement to obtain DOIT approval of web content. This bill would significantly delay the posting of time-sensitive information and jeopardize the ease of access to CalSTRS information to the general public, members, employers and CalSTRS staff. Requiring approval of CalSTRS website content by another state agency appears to be inconsistent with the Board's authority under Proposition 162.

<u>Assembly Bill 2201</u>	**Assembly Member Honda (As introduced 2/24/00)**
<u>Position:</u>	**Support, if amended (Staff recommendation)**
<u>Proponents</u>:	**ACSA, ART, CFT, CRTA, CTA, FACCC**
<u>Opponents</u>:	**None known**

SUMMARY

AB 2201:

- Bases retirement allowances on the highest annual compensation earnable during any 12-month period
- Requires the annual two percent benefit adjustment be compounded
- Increases the purchasing power protection level to 80 percent
- Provides a 2 percent at age 55 service retirement allowance
- Increases the cap on the age factor with the career bonus from 2.4 percent to 2.5 percent
- Makes a variety of changes to the composition and method of selection to the Teachers' Retirement Board (Board), including
  - ➢ increasing the number of members from 12 to 13
  - ➢ requiring the election of four board members by active members and two by retired members, from their respective memberships
  - ➢ removing the life insurance company officer and bank or savings and loan officer positions and, in their places, requiring the Governor to appoint, subject to Senate confirmation, two public members
  - ➢ allowing the Governor to fill vacancies on the Board
- Is effective January 1, 2003, with the exception of the cost-of-living adjustment (COLA) provisions, which are effective September 1, 2003

HISTORY

<u>SB 1693 (Ortiz, 2000</u>) also proposes increasing purchasing power payments from 75 percent of the original allowance to 80 percent.

<u>AB 2839 (PER&SS, 2000)</u> also provides a 2 percent at age 55 service retirement allowance for CalSTRS members.

<u>AB 821 (PER&SS, 1999)</u>, currently with the Senate Appropriations Committee, proposes highest-year final compensation for California State Teachers' Retirement System (CalSTRS) members. The Board adopted a support if amended position on AB 821, if the bill was amended to identify appropriate funding.

AB 311 (Honda, 1999) would have created an elected Board and increased membership from 12 to 15. The Governor vetoed the bill.

AB 684 (Honda, 1998) would have compounded the COLA. The Board voted to support this bill if it was amended to identify funding. That bill failed to pass the Assembly.

CURRENT PRACTICE

Final Compensation – The member's final compensation generally is the highest average annual compensation earnable by the member for creditable service performed during any period of three consecutive years. Service retirement allowances of classroom teachers are calculated based on the highest average annual compensation earnable by the member during any 12 consecutive month period, if agreed to in collective bargaining and paid for by the employing district.

COLAs – Benefits are annually increased by a simple 2 percent improvement factor. The COLA is applied September 1 of each year following the first anniversary of the effective date of the member's initial benefit.

Service Retirement Formula – The service retirement allowances of members and specified nonmember spouses are calculated based upon a 2 percent at age 60 retirement benefit formula. The service retirement allowance of a member who retires prior to age 60 receives a reduced retirement allowance. A career bonus is provided to a member who retires with 30 or more years of service and an increased age factor is provided to a member who works after the age of 60, effective January 1, 1999. The maximum a member can receive under both the career bonus and increased age factor is 2.4 percent at age 63.

Purchasing Power Protection – All members and beneficiaries of the Defined Benefit (DB) Program receive monthly allowances that are increased by two percent of the original allowance. In addition, when the purchasing power of the current allowance, including the two percent adjustment, is less than 75 percent of the purchasing power of the original allowance, the member or beneficiary receives a quarterly benefit increase to the purchasing power of their total benefit to the 75 percent level. These supplemental payments are paid from (1) funds appropriated from the General Fund in an amount equal to 2.5 percent of the prior calendar year CalSTRS' member payroll, and (2) payments from the sale or use of land granted to the state by the federal government to support schools.

Board Membership – CalSTRS is administered by a 12-member Board. Three are members of the DB Program or participants in the Cash Balance (CB) Benefit Program (two of which are a K-12 teacher and one a community college instructor); one is a retired member or participant. One member of the Board is an appointed officer of a life insurance company and one an appointed officer of a bank or savings and loan. The Governor appoints the K-12 and community college members, from a list submitted by the Superintendent of Public Instruction and the Community College Board of Governors, respectively. Other Board appointments by the Governor are subject to Senate confirmation.

DISCUSSION

Highest-Year Final Compensation – Generally, final compensation means the highest average annual compensation earnable by a member during any period of three consecutive school years while an active member of the DB Program or time during which he or she was not a member but for which the member has received credit under the DB Program.

Final compensation currently may be based on one 12-month period for a classroom teacher member who retires, become disabled, or dies after June 30, 1990, if during the last ten years of employment with the same employer,

- The member provided 60 percent or more of their contract time in direct classroom instruction,
- The member is employed by an employer who has entered into a written agreement with an exclusive representative to make this provision applicable to all classroom teachers, and
- The written agreement includes a mechanism to pay the actuarial difference between the one-year final compensation and the three-year final compensation, plus CalSTRS' administrative costs.

Currently, 41 school districts provide this benefit to their teachers. Changing the definition of final compensation from a three-year average to the highest 12 consecutive months for all CalSTRS members would create a basis of determining final compensation consistent with the formula used for state and school workers covered by the California Public Employees' Retirement System (CalPERS).

Compounded COLA – Currently, retired members and beneficiaries receive a 2 percent simple benefit improvement factor to their allowance. Currently CalPERS pay for 2 percent compounded annual COLAs to state and school CalPERS members. AB 2201 changes the CalSTRS COLA to a compounded COLA, effective September 1, 2003. Purchasing power protection payments are made to members and beneficiaries whose current allowance is worth less than 75 percent of the purchasing power of the original allowance. Consequently, if a member or beneficiary is receiving purchasing power payments, any increase in the COLA from compounding would be offset by a reduction in purchasing power payments. As a result, only members or beneficiaries who are not receiving purchasing power payments would realize a net benefit from compounding the COLA.

2 Percent at Age 55 Service Retirement Formula – AB 2201 improves the retirement formula from the current 2 percent at age 60 to a 2 percent at age 55 formula, for members who retire on or after January 1, 2003. This percentage would increase for each quarter year of the member's age, to a maximum retirement formula of 2.5 percent at age 63 or over. The cap on the age factor, with the career bonus, also would be increase to 2.5 percent. As a result of these proposed changes, the age at which a member subject to the career bonus would reach the maximum age factor, with the career bonus, would decline from age 61½ to 60. The resulting age factor would be as follows:

Age	Current law*	AB 2201	Proposed increase
55	1.400%	2.000	0.600%
56	1.520%	2.048%	0.544%
57	1.640%	2.126%	0.486%
58	1.760%	2.188%	0.428%
59	1.880%	2.250%	0.370%
60	2.000%	2.314%	0.314%
61	2.133%	2.376%	0.243%
62	2.267%	2.438%	0.171%
63	2.500%	2.500%	0.001%

*Before application of a career bonus if the member has at least 30 years of credited service

This would make the CalSTRS age factors (prior to the application of the career bonus) consistent with those used to calculate retirement allowances paid to CalPERS state and school members. The bill, as currently drafted, temporarily eliminates the increased age factor that became effective in 1999 to members who retire after age 60. The bill should be amended to correct this error. In addition, because the increased age factor does not begin until age 55, there would be a significant increase in the age factor (from 1.340 to 2.000, an increase of 0.660) from age 54 to age 55.

<u>Purchasing Power Protection</u> – Currently, approximately 40,000 members and beneficiaries, whose benefit effective date was 1981 or earlier, receive the quarterly supplemental payment. AB 2201 increases the supplemental payments from 75 percent to 80 percent to restore the purchasing power of the initial monthly allowances received by CalSTRS members. This would increase the number of supplemental benefit recipients by 16,340 members and beneficiaries, and would include all members and beneficiaries whose benefit effective date was 1984 or earlier.

<u>Board Elections</u> – AB 2201 changes the number and distribution of board seats, as follows:

Board Position	***Current***	***Proposed***
K-12	2	0
Community College	1	0
Retired	1	2 (elected member or participant)
School Board	1	1 (appointed)
Life Insurance, Bank	2	0
Public	1	2 (appointed)
State Officers	4	4
Active Member or Participant	0	4 (elected)
<u>TOTAL</u>	12	13

Other provisions of AB 2201;

- Allow the Governor to fill vacancies in the member, school board, or public seats upon resignation or death of the board member
- Require the school district or community college district members to vacate their respective seats if the member ceases to be on their respective board
- Specify that elected board members serve four year terms
- Require board members to sit out for a year after serving two consecutive board terms (eight consecutive years)
- Require the Board to adopt regulations to conduct the elections
- Allow the Board to contract with a private firm to conduct the elections.

As drafted, it appears that the terms of all Board members elected by CalSTRS members and participants would begin on the same date.

FISCAL IMPACT

Final Compensation

Benefit Program Costs – According to preliminary estimates by the actuary, providing one year final compensation to all CalSTRS members would result in the following actuarial impact:

	Present value cost (in millions)	**Percent of pay to fund**
Normal cost increase of future service		0.775%
Actuarial obligation for prior service	$2,651	0.834%
Total costs during funding period	$5,114	1.609%

These estimates do not reflect potential changes in the rate of retirement, which may or may not occur as a result of the changes in the bill.

This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	2001-02	**2002-03**	**2003-04**
Total benefit payment increase	$7.6	$20.7	$35.8
Annual increase in contributions needed to fund benefit	$313	$327	$340

Administrative Costs – CalSTRS anticipates that it could absorb any increased effort necessary to implement this bill.

Compounded COLA

Benefit Program Costs – According to preliminary estimates by the actuary, compounding the COLA for all current and future retired CalSTRS members would result in the following actuarial impact:

	Present value cost (in millions)	Percent of pay to fund
Normal cost increase of future service		0.353%
Actuarial obligation for prior service	$2,268	0.910%
Total costs during funding period	$3,388	1.263%

These estimates do not reflect potential changes in the rate of retirement, which may or may not occur as a result of the changes in the bill. In addition, compounding the COLA would reduce the cost of purchasing power payments.

This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	2003-04	2004-05	2005-06
Total benefit payment increase	$9.5	$19.9	$31.0
Annual increase in contributions needed to fund benefit	$267	$279	$290

Administrative Costs – There would be an initial increase in workload in the first year the benefit is available as necessary system modifications are made. After any initial increase in workload, ongoing costs would be minor and absorbable.

2 Percent at Age 55 Service Retirement Formula

Benefit Program Costs – According to preliminary estimates by the actuary, providing a 2 percent at age 55 retirement benefit allowance results in the following actuarial impact:

	Present value cost (in millions)	Percent of pay to fund
Normal cost increase of future service		1.440%
Actuarial obligation for prior service	$4,372	1.376%
Total costs during funding period	$8,950	2.816%

These estimates do not reflect potential changes in the rate of retirement, which may or may not occur as a result of the changes in the bill.

This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	2001-02	2002-03	2003-04
Total benefit payment increase	$13.4	$36.6	$63.4
Annual increase in contributions needed to fund benefit	$548	$572	$596

Administrative Costs – There would be a one-time cost of about $25,000 for programming and a potential increase in workload in 2003, the first year this benefit will be available, if the number of service retirements increases in that first year. Depending on the extent of any increase in retirements, the increased cost to accommodate the increased workload could be up to $92,000. After any initial increase in retirements, ongoing costs would be minor and absorbable.

Purchasing Power Protection

Benefit Program Costs – According to preliminary estimates by the actuary, increasing the level of purchasing power protection from 75 percent to 80 percent would increase purchasing power payments as follows (in millions of dollars):

	2003-04	**2004-05**	**2005-06**
Total benefit payment increase	$76.2	$82.5	$88.0

Given current actuarial assumptions, the funds that are available only to make such payments are sufficient to pay the increased cost for at least 30 years.

Administrative Costs – Minor and absorbable costs.

Board Elections

Benefit Program Costs – The bill would not affect the current benefit structure or programs.

Administrative Costs – The bill allows the Board to contract with a private firm to conduct the elections. Based on CalPERS costs for the elections they conduct for their board, total election costs would be approximately $208,000 for 2001-02 (the first election year) and every four years thereafter, or an average of $52,000 per year, over four years. Actual costs could be different depending on when elections for particular seats were held, which is not identified in the bill.

AB 2201 proposes an additional Board member, increasing the current board membership to 13 from 12. For the current 12-member board, annual operating expenses are $6,400 per teacher member, plus about $3,600 per diem. Total costs for the additional member would be approximately $10,000 per year.

RECOMMENDATION

Support the benefit enhancements, if amended to identify an additional funding source. Although the final cost of all the proposed benefit changes combined has not been estimated, given the cost of these individual proposed benefits, the combined cost is beyond the ability of existing resources to fund. Historically, the Board has not taken a position on legislation affecting the composition of the Board.

Assembly Bill 2456 **Assembly Member Wright (As introduced 2/24/00)**

Position: **Support, if amended (Staff recommendation)**

Proponents: **FACCC (Sponsor)**

Opponents: **Unknown**

SUMMARY

AB 2456 establishes the Deferred Retirement Option Program (DROP) as a supplemental benefit program in the Defined Benefit (DB) Program for members of the California State Teachers' Retirement System (CalSTRS). The DROP is designed as a voluntary program that would provide a lump sum payment upon retirement. This bill also directs the Teachers' Retirement Board (Board) to implement the program no later than January 1, 2002, as specified.

HISTORY

In May of 1998, the Board considered a DROP proposal in relation to the package of legislation enhancing retirement benefits to encourage the recruitment and retention of qualified teachers in California. The CalSTRS benefits consultant and consulting actuary advised the Board that the benefits of a DROP would be similar to that of an increased age factor, if designed properly.

SB 1312 (Baca) 1999, establishes a DROP as a supplemental benefit program in the California Public Employees' Retirement System (CalPERS) for members, as specified. That bill is still pending consideration by the Legislature.

CURRENT PRACTICE

CalSTRS administers the State Teachers' Retirement Plan, comprised of two distinct benefit structures: a DB Program and a Cash Balance (CB) Benefit Program. The DB Program was designed in 1913 to provide retirement and other benefits for persons employed to perform creditable service on a full-time basis in the California public schools.

The benefit paid by the DB Program is based on the level of credited service, the age of the member at retirement, and the creditable compensation earnable during the three highest consecutive years of service. Current law provides that the percentage of final compensation used in the calculation of a member's service retirement allowance, is increased by 0.2 percent for members retiring after January 1, 1999, who have earned 30 or more years of service credit. Current law also increases for each quarter year of age greater than age 60, up to a maximum of 2.4 percent at age 63.

Current law defines "active member" as a member who is not retired or disabled and who earns creditable compensation during the school year. A "retired member" is a member who has terminated employment and has retired for service or disability.

DISCUSSION

In general, when an eligible member elects DROP, the member's monthly retirement allowance is calculated using age, service credit and final compensation as if retirement occurred at the time the member enters the DROP period. The monthly benefit amount, however, isn't paid to the member at that time. Instead, the monthly benefit is paid into a "nominal" account of the member.

After the member enters the DROP period, the "nominal" account is credited with the frozen monthly retirement allowance. In some DROPs, the member's DROP account is credited with the member's and/or employer's contributions. Nominal accounts also are credited with interest, either at a guaranteed interest rate or at a variable rate, depending on how the DROP is designed. The member receives the balance of the nominal account when the DROP period is over and/or the member terminates employment (retires). No benefit can be paid directly to the member until the DROP period is completed and/or the member actually terminates employment. This requirement prevents any tax-qualification issues with the Internal Revenue Service.

The DROP in AB 2456 allows CalSTRS members to elect to participate in the program upon reaching age 60 if the member has at least five years of credited service. To participate, a member selects a date 36 months prior to the actual retirement date and the member's monthly retirement allowance would be determined at that time based on the member's age, credited service and final compensation rather than pay the member the monthly allowance. The calculated amount is credited to the member's account. In the current form of the bill, member and employer contributions would not be paid once the member entered the DROP period.

When the participant actually retires and ceases employment at the end of the DROP period, he or she would begin to receive the CalSTRS retirement benefit. In addition, the member would receive the lump sum value or annutized payment from the deferred or DROP account calculated from the beginning of the DROP period, plus the two percent simple COLA.

If a member elects to participate in this program, this election would be irrevocable. Members who participate in the DROP program would not be eligible to participate in the Reduced Workload Program. Members who have participated in DROP and reinstate would not be eligible to participate in DROP during a subsequent retirement.

The primary reason a CalSTRS member would elect to participate in a DROP program is that it gives the member the ability to take part of the retirement income as a lump sum, in addition to receiving a monthly retirement benefit allowance. Establishing a DROP could encourage qualified and experienced teachers to continue teaching for a longer period of time, beyond normal retirement age, in order to receive that lump sum distribution. On the other hand, any member participating in a DROP would forego:

- benefit enhancements enacted after the member elected to participate in the DROP would not apply to the calculation of the member's retirement benefit.
- pay increases that occurred after the member elected to participate in the DROP would not apply to the calculation of the member's retirement benefit.

This bill requires a number of amendments to clarify implementation of the program, including the rate of interest on the payments.

Based on experience in other states, staff anticipate that about 2/3 of the eligible members would elect to participate in the DROP. This would result in about 17,000 electing to participate in the program in the first year as currently proposed in the bill. This would increase by approximately 4,800 additional participants annually for the next three years.

FISCAL IMPACT

Benefit Program Costs – In the bill's current form, the employer and member contributions to the DB Program would cease at the point the member begins service in the DROP Program. If the beginning of the DROP service is earlier than the member would have retired under current law, the DROP will have an actuarial impact on the DB Program. The actuary has not estimated the magnitude of the impact. However, that impact is mitigated in other DROP programs by, for example, maintaining contributions by the member and/or employer to the DB Program even during the DROP period and, in some cases, crediting only a percentage of the retirement benefit to the member's DROP account.

Administrative Costs –Based on the experience in other states in administering a DROP program, there would be initial one-time costs of about $500,000 to establish the necessary administrative and actuarial procedures. There would be ongoing costs of $250,000 to $500,000 annually, for increased education and counseling of members interested in the program and on-going administrative activities.

RECOMMENDATION

Support, if amended to identify a funding source or to mitigate the costs of the DROP program.

Assembly Bill 2839 **Assembly Member Firebaugh (As Amended 4/11/00)**

Position: **Support, if amended (Staff recommendation)**

Proponents: **CFT**

Opponents: **None known**

SUMMARY

AB 2839 permits a member of California State Teachers' Retirement System (CalSTRS) to retire on or after January 1, 2001 based on a formula of 2 percent at age 55.

HISTORY

Chapter 1006, Statutes of 1998 (AB 1102)—Knox) provided a career bonus of 0.2 percent of final compensation per year of credited service up to a combined age factor and career bonus of 2.4 percent for members with 30 or more years of credited service who retire on or after January 1, 1999.

Chapter 966, Statutes of 1998 (AB 1150—Prenter) increased the percentage retirement allowance from 2 percent at age 60 to a maximum of 2.4 percent at age 63 for members who retire on or after January 1, 1999.

AB 2201 (Honda) provides a 2 percent at age 55 retirement allowance for CalSTRS members.

CURRENT PRACTICE

The service retirement allowances of members and specified nonmember spouses are calculated based on years of credited service, final compensation and an age factor equal to 2 percent at age 60. The age factor is reduced for a member who retires prior to age 60, and increased for a member who retires between age 60 and 63. Members are permitted to retire between the ages of 50 and 55 if they have at least 30 years of credited service. A career bonus is provided to a member who retires with 30 or more years of service and an increased age factor is provided to a member who works after the age of 60, effective January 1, 1999. The maximum a member can receive under both the career bonus and increased age factor is 2.4 percent at age 63.

DISCUSSION

Under AB 2839, the age factor portion of the retirement would be improved to 2 percent at age 55 for those members and nonmember spouses who retire on or after January 1, 2001. This percentage would increase for each quarter year of the member's age, to a maximum retirement formula of 2.5 percent at age 63 or over. The current and resulting age factors would be as follows:

Age	Current law*	AB 2839	Proposed increase
50	1.100%	1.100%	0.000%
51	1.160%	1.280%	0.120%
52	1.220%	1.460%	0.240%
53	1.280%	1.640%	0.360%
54	1.340%	1.820%	0.480%
55	1.400%	2.000%	0.600%
56	1.520%	2.048%	0.544%
57	1.640%	2.126%	0.486%
58	1.760%	2.188%	0.428%
59	1.880%	2.250%	0.370%
60	2.000%	2.314%	0.314%
61	2.133%	2.376%	0.243%
62	2.267%	2.438%	0.171%
63	2.400%	2.500%	0.100%

*Before application of a career bonus if the member has at least 30 years of credited service

This bill would make the age factors consistent with those paid to school members of the California Public Employees Retirement System. The bill conflicts with other provisions of current law, not being amended, which specifies lower age factors for members retiring before age 55, and which currently limit such retirements to members with at least 30 years of service. The bill also appears to eliminate the career bonus, an increased age factor provided to members who retire with at least 30 years of credited service. It is not likely that that effect was intended.

FISCAL IMPACT

Benefit Program Costs – According to preliminary estimates by the actuary, providing a 2 percent at age 55 retirement benefit allowance results in the following actuarial impact, assuming the proposal was not intended to eliminate the impact of the career bonus:

	Present value cost (in millions)	Percent of pay to fund
Normal cost increase of future service		1.440%
Actuarial obligation for prior service	$4,372	1.376%
Total costs during funding period	$8,950	2.816%

These estimates do not reflect potential changes in the rate of retirement, which may or may not occur as a result of the changes in the bill. It also does not reflect any changes on either the rate or the eligibility for retiring before age 55.

This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	2001-02	**2002-03**	**2003-04**
Total benefit payment increase	$13.4	$36.6	$63.4
Annual increase in contributions needed to fund benefit	$548	$572	$596

<u>Administrative Costs</u> – There would be a one-time cost of about $25,000 for programming and a potential increase in workload if the number of service retirements increases in the first year the benefit is available. Depending on the extent of any increase in retirements, the increased cost to accommodate the increased workload could be up to $92,000. After any initial increase in retirements, ongoing costs would be minor and absorbable.

RECOMMENDATION

Support, if amended to identify a funding source for the increased benefit.

Senate Bill 1505 **Senator Alarcon (As amended 4/13/00)**

Position: **Support (Staff recommendation)**

Proponents: **Unknown**

Opponents: **Unknown**

SUMMARY

SB 1505 exempts a member of the California State Teachers' Retirement System (CalSTRS) from the earnings limitation if he or she retired from service on or before January 1, 2000 and is employed to provide direct classroom instruction to pupils in K-12, inclusive. The exemption would also apply to positions that provide support to new teachers, that support individuals completing student teaching assignments or students participating in the Pre-internship Teaching Program, in an alternative certification program, or in the School Paraprofessional Teacher Program. This exemption applies to the 2000-01 school year and would remain in effect until July 1, 2005. SB 1505 also contains other teacher recruitment incentives as proposed in the Governor's 2000-01 Budget that do not directly affect the Teachers' Retirement Fund and will not be addressed further in this analysis.

HISTORY

Chapter 1, Statutes of 1997 (AB 18—Mazzoni) retroactively made operative the provisions of Chapter 948, Statutes of 1996 (AB 1068—Mazzoni). These bills exempted from the earnings limit members who retired on or before July 1, 1996 and were subsequently hired to alleviate the teacher shortage caused by the passage of the Class Size Reduction Program in grades K-3.

Chapter 965, Statutes of 1998 (AB 2765—Assembly PERR&SS) extended the exemption to members who retired on or before July 1, 1998 extended the sunset date to July 1, 2002.

Chapter 40, Statutes of 1999 (AB 335—Mazzoni) clarified the existing earnings limitation exemption for retired teachers who returned to the classroom as a result of the K-3 Class Size Reduction Program to include the recently authorized Grade 9 class size reduction program and future expansions of the class size reduction programs authorized by Part 28 of the Education Code.

AB 141 (Knox) extends for an additional six months the current exemption from the earnings limitation for retired members who are employed on an emergency basis to fill an administrative position vacated due to circumstances beyond the control of the employer.

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AB 1733 (Wildman) eliminates the current earnings limitation of $19,050.

AB 1736 (Ducheny) exempts from the earnings limitation members who retired on or before July 1, 2000 and return to the classroom to provide direct remedial instruction to pupils in K-12, inclusive.

CURRENT PRACTICE

Current law permits a member who retired for service to earn compensation of up to $19,050 for creditable service during the 1999-2000 school year, without a reduction in the retirement allowance. The limit is indexed annually to increases in the All-Urban California Consumer Price Index. In 2000-2001, the earnings limit will be $19,650. Any creditable earnings in excess of this amount result in a dollar-for dollar reduction in the retirement allowance up to the annual allowance. Existing exemptions from the earnings limitation include the following:

- A member who retired for service and who is appointed as a trustee or administrator or who is employed on an emergency basis to fill an administrative position. This exemption sunsets on July 1, 2003.

- A member who retired for service on or before July 1, 1998, and is employed either to (1) provide direct classroom instruction to in any statutorily authorized class size reduction program; or (2) temporarily fill a position vacated due to a teacher who transferred to a classroom in the same district because of the Class Size Reduction Program. This exemption, which sunsets on July 1, 2002, is subject to the following conditions:

    1. The member is treated as part of a distinct class of temporary employees within the existing bargaining unit.
    2. The employing school district submits documents CalSTRS to substantiate the eligibility of the member for the exemption.

DISCUSSION

This bill reflects the Governor's incentives to provide a variety of incentives to recruit teachers. These proposals were included in his proposed 2000-01 Budget. The only proposal in SB 1505 to directly affect CalSTRS would suspend for five years the statutory earnings limitation for CalSTRS members who (1) retired for service (not disability) prior to 2000 and (2) return to K-12 schools or County Offices of Education to provide direct classroom instruction or to provide support for various programs, such as student interns or the Beginning Teacher Support and Assessment Program.

This bill will not provide an incentive for active members to retire because it is limited to those who have retired on or before January 1, 2000. This is consistent with the requirement imposed on members who are exempted from the earnings limit due to the class size reduction program. We anticipate that members who will receive a full retirement benefit when they otherwise would have received a reduced benefit will be relatively small. There are 1,733 retired members working under the class size reduction exemption in the current school year out of the 18,000 retired who currently are working. A total of 488 members have exceeded the earnings limit during the current school year. The class size exemption applies to members who retired on or before July 1, 1998. The proposal in SB 1505 would permit members who retired on or before January 1, 2000 to be exempted from the earnings limit. As a result, a member who retired during that 18-month period could work until July 2005 without being subject to the earnings limit.

FISCAL IMPACT

Benefit Program Costs – This proposal will have no actuarial impact on the system because the valuation of the DB Program assumes that members do no work beyond the earnings limit. To the extent that members earn compensation in excess of the limit, the resulting reduction in CalSTRS benefits could result in an unanticipated actuarial gain to the program. Exempting members who retire prior to the bill's effective date for the limit would result in the system foregoing that actuarial gain.

Administrative Costs – Minor and absorbable.

RECOMMENDATION

Support. This proposal is consistent with previous proposals to provide exemptions the earning limit to members who retired prior to the bill's effective date in order to address difficulties in filling CalSTRS-covered positions.

Senate Bill 1693 **Senator Ortiz (As introduced 2/22/00)**

Position: **Support (Staff recommendation)**

Proponents: **None known**

Opponents: **None known**

SUMMARY

SB 1693 increases the supplemental payments made from the Supplemental Benefit Maintenance Account (SBMA) in the Teachers' Retirement Fund to restore purchasing power of initial allowances to 80 percent of the member's initial monthly allowance. Currently, such payments are made to maintain 75 percent of California State Teachers' Retirement System (CalSTRS) member's initial allowance.

HISTORY

SB 1026 (Schiff—Chapter 939, Statutes of 1997) provided for purchasing power protection of up to 75 percent of the benefit recipient's original purchasing power from the 2.5 percent annual General Fund contribution to the SBMA.

AB 1102 (Knox—Chapter 1006, Statutes of 1998) vested the 2.5 percent General Fund contribution and the purchasing power payments payable from that contribution to retired members of the CalSTRS.

AB 2201 (Honda, 2000) proposes, among other provisions, an increase in the level of payments made from the SBMA for purchasing power protection from 75 percent to 80 percent.

CURRENT PRACTICE

All members and beneficiaries of the Defined Benefit Program receive monthly allowances that are increased by two percent of the original allowance. In addition, when the purchasing power of the current allowance, including the two percent adjustment, is less than 75 percent of the purchasing power of the original allowance, the member or beneficiary receives a quarterly benefit increase to the purchasing power of their total benefit to the 75 percent level. These supplemental payments are paid from (1) funds appropriated from the General Fund in an amount equal to 2.5 percent of the prior calendar year CalSTRS' member payroll, and (2) payments from the sale or use of land granted to the state by the federal government to support schools.

DISCUSSION

Currently, members and beneficiaries whose benefit effective date was 1981 or earlier receive the quarterly supplemental payment, and about 40,000 members and beneficiaries receive the quarterly payment. SB 1693 increases the supplemental payments from 75 percent to 80 percent to restore the purchasing power of the initial monthly allowances received by CalSTRS members. This would increase the number of supplemental benefit recipients by 16,340 and would include all members and beneficiaries whose benefit effective date was 1984 or earlier.

FISCAL IMPACT

Benefit Program Costs – According to preliminary estimates by the actuary, increasing the level of purchasing power protection from 75 percent to 80 percent would increase purchasing power payments as follows (in millions of dollars):

	2001-02	**2002-03**	**2003-04**
Total benefit payment increase	$62.8	$69.4	$76.2

Given current actuarial assumptions, the funds that are available only to make such payments are sufficient to pay the increased cost for at least 30 years.

Administrative Costs – Minor and absorbable costs.

RECOMMENDATION

Support. The bill provides an important increase in the supplemental payments made to retired members to stave off the eroding forces of inflation. These increased payments would assist long-retired members whose retirement allowances have been the most eroded over the course of time.

Senate Bill 1694 **Senator Ortiz (As introduced 2/22/00)**

Position: **Support, if amended (Staff recommendation)**

Proponents: **None known**

Opponents: **None known**

SUMMARY

SB 1694 allows a member of the California State Teachers' Retirement System (CalSTRS) who becomes employed by the state, and a state member of the California Public Employees' Retirement System (CalPERS) who becomes employed to perform service that is creditable under CalSTRS, to elect to be excluded from membership in the other system, and continue to have his or her service subject to the retirement system of which they currently are a member.

HISTORY

Chapter 954, Statutes of 1975 (AB 1105—Deddeh), allowed state employee CalSTRS members a one-time election of CalPERS membership, in lieu of CalSTRS. This election was deemed necessary due to the Total Equivalent Compensation (TEC) Act of 1974, which established additional benefits for state employees covered by CalPERS. This one-time election was the alternative provided to those members who requested benefit parity after the passage of the TEC.

AB 2916 (O'Connell, 1994), vetoed by the Governor, would have provided certain CalSTRS members who are subsequently employed to perform service with specified state agencies to elect to remain in CalSTRS. The Governor's veto message stated the bill would have inequitably provided a more costly benefit to a select group of employees and should be subject to collective bargaining.

Chapter 838, Statutes of 1997 (SB 227—Solis) permitted vested CalSTRS members who were employed by a community college district and who subsequently became employed by the Board of Governors of the California Community Colleges to perform duties that require membership in a different public retirement system (e.g., CalPERS) to elect, in writing within 60 days after the individual's entry into the new position, to remain in CalSTRS.

CURRENT PRACTICE

A school employee who is a member of the CalSTRS Defined Benefit (DB) Program and who becomes employed by the same or a different school district, community college district or county superintendent of schools to perform service that requires membership in another public retirement system (e.g. CalPERS) may elect to have that service in the new position covered under the DB Program. Alternatively, a school member of CalPERS who changes jobs and performs service which is creditable under the DB Program may elect to have such service credited under CalPERS.

This CalSTRS-CalPERS election initially was a reciprocal provision that was available to employees who change employment in positions only within the California local public school system. This changed with Chapter 838, Statutes of 1997 (SB 227—Solis), which allowed a vested CalPERS member who was employed by the Board of Governors of the California Community Colleges and who subsequently was employed by a community college district to perform duties that required membership in a different public retirement system (e.g. CalSTRS) to elect in writing within 60 days after the individual's entry into the new position to remain in CalPERS. It also permitted a vested CalSTRS member who subsequently was employed by the Board of Governors to elect to remain in CalSTRS. Chapter 838 also authorized the member to elect by March 1, 1998 to return to CalSTRS, provided the change in employment occurred between July 1, 1991 and January 1, 1998, and that CalPERS transferred to actuarial value of assets in the member's account to CalSTRS.

DISCUSSION

SB 1694

- Allows a *CalSTRS* member who becomes employed by the state in CalPERS-covered work to elect to remain a *CalSTRS* member, instead of becoming a CalPERS member;
- Allows a CalPERS member employed by the state, who becomes employed to perform *CalSTRS*-covered work, to elect to have that subsequent work credited with *CalPERS;*
- Specifies that the election is effective as of the first day of employment in the position that qualified the member to make the election;
- Deletes provisions excusing CalPERS of the requirement to notify potentially eligible members.

Permitting CalSTRS members to earn CalSTRS service credit by working for the state, even if not in an education-oriented agency, would be a departure from the traditional mission of CalSTRS, which is to provide retirement benefits to employees of public education agencies. Last year, the Teachers' Retirement Board (Board) sought and obtained amendments to AB 596 (Honda), which would have permitted CalSTRS members to purchase service in the Peace Corps, even if the service was unrelated to teaching. If the Board desires to retain that policy, the bill should be amended to limit the ability of CalSTRS members to earn CalSTRS service for state employment to service that occurs in an education-oriented agency.

FISCAL IMPACT

Benefit Program Costs – Any change in liability would depend on which retirement system members elected to participate in. Any increase in liability to CalSTRS, however, would be offset by increases in contributions.

Administrative costs – Minor, if any impact.

RECOMMENDATION

Support, if amended to restrict the ability of a CalSTRS member to elect continued coverage under CalSTRS to members who are employed in education-oriented state agencies. SB 1694, if amended, would extend to state employees an opportunity given to employees of other public education agencies to elect to stay with their retirement system, or change to another.

Senate Bill 2105 **Senator Lewis (As introduced 2/25/00)**

Position: **Support, if amended (Staff recommendation)**

Proponents: **California Network of Educational Charters (CNEC)**

Opponents: **CTA**

SUMMARY

SB 2105 allows a school district or county office of education to process payroll and fulfill reporting requirements imposed by the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of a charter school. The bill also allows two or more charter schools, if authorized by their governing bodies, to enter into a joint exercise of powers agreement (JPA) solely for the purpose of providing payroll processing services and reporting services.

HISTORY

Chapter 939, Statutes of 1999 (SB 1074—PE&R Committee) allowed a school district or community college district, with the approval of the Teachers' Retirement Board (Board), to submit a monthly report directly to CalSTRS containing information that the Board may require for administration of the State Teachers' Retirement Plan.

CURRENT PRACTICE

County superintendents of schools and employing agencies are required to submit the mandatory monthly reports directly to CalSTRS containing information that the Board may require in the administration of the State Teachers' Retirement Plan. Generally, county officers submit such reports on behalf of all districts within the county. However, a school district or community college may, upon approval by the Board, submit the monthly reports directly to CalSTRS. Monthly reports are due to CalSTRS 30 calendar days immediately following the month in which the compensation being reported was earned, and are delinquent after an additional 15 calendar days.

DISCUSSION

According to the author, the intent of SB 2105 is to provide the growing number of charter schools in California with statutory authority related to membership reporting, as well as flexibility in these administrative processes carried out with their school districts, or county offices of education. Charter schools, which may elect to have their certificated employees participate in CalSTRS, have indicated difficulty in getting county offices of education to submit the required reports to CalSTRS on their behalf.

FISCAL IMPACT

Benefit Program Costs – None.

Administrative Costs – Minor and absorbable ongoing administrative costs related to the handling of the charter school reports submitted through JPAs under the bill. Any increase in CalSTRS' workload would depend, in part, upon the number of charter schools reporting through the JPAs, as well as the ultimate number of schools the Board allows to report directly.

RECOMMENDATION

Support, if amended to permit the JPAs to submit reports to the Board only if approved to do so by the Board, and to clarify the bill's reporting provisions.

Senate Constitutional Amendment 16	**Senator Burton (As introduced 3/6/00)**
Position:	**Neutral, if amended (Staff recommendation)**
Proponents:	**None known**
Opponents:	**CalSTRS**

SUMMARY

SCA 16 requires that the expenditures for administration and personnel of the California State Teachers' Retirement System (CalSTRS) and the California State Public Employees' System (CalPERS) be subject to appropriation in the annual Budget Act. It would also authorize the Governor or the Legislature to conduct an independent actuarial audit, of these retirement systems every five years beginning in January 2005 and it requires.

HISTORY

California Pension Protection Act (Proposition 162 of 1992) – Granted the Teachers' Retirement Board (Board) plenary authority over investment decisions and administration of the system in a manner to assure prompt delivery of benefits and related services to members and their beneficiaries. Proposition 162 was intended to insulate the administration of retirement systems from oversight and control by the legislative and executive branch and to return control of the actuarial functions to the retirement boards.

CURRENT PRACTICE

In April 1993, the Board took steps to implement Proposition 162 by assuming exclusive control over the administration of the System. Prior to the passage of Proposition 162, CalSTRS was subject to oversight by the same control agencies, such as the Department of Finance, Legislature, and State and Consumers Services Agency, that other state departments and commissions are subject to. This meant, for example, that the Board's line item budget required approval by the Legislature and the Administration each year through the annual budget process. As a result, CalSTRS' support budget, including all of its sub-components and requested changes, was subject to all state budgeting procedures.

The Board's implementation of Proposition 162 included major changes to the budget and procurement processes. These changes were implemented to assure the prompt delivery of benefits and related services to members and their beneficiaries. In effect, the Board eliminated the Department of Finance (DOF) line item control over the budget in such areas as procurement of services, equipment purchases and salary savings requirements. Nonetheless, the Board elected to continue to have the CalSTRS support appropriation included in the Governor's Budget and the annual Budget Act (as a single line item appropriation), and elected to participate in legislative budget hearings on the CalSTRS budget to facilitate discussion of any issues raised by the Legislative Analyst Office and the budget committees. In addition, although Proposition 162 granted the Board authority to exercise plenary authority over the CalSTRS budget, the Board conforms its budget allocation process to the guidelines and time frames established for other state departments. CalSTRS has the authority, however, to establish new positions within a given budget year or commit resources to a new project without advance approval of the DOF or the Legislature.

Actuarial audits

Currently, the Board's policy is to contract every ten years for an actuarial audit of the System, unless there has been a change in actuaries during that period. For a new actuary to complete the first valuation of their contract, they must establish a base, which essentially requires an audit of the preceding actuary's valuation methodology. Completion of this audit ensures that the new actuary understands CalSTRS' benefit structure, and verifies the prior actuary's assumptions, processes and results. In the last 25 years, CalSTRS would change actuaries every six to eight years.

DISCUSSION

This measure could significantly reduce CalSTRS authority under Proposition 162. SCA 16 requires that the CalSTRS appropriation for personnel and administration be approved by the Legislature in the annual Budget Act. Although CalSTRS, even before the passage of Proposition 162, had historically been successful in acquiring the requested support funds through the budget process, if CalSTRS was not able to get the requested funds in the future, the ability of CalSTRS to effectively invest its funds or deliver services to members and beneficiaries could be impaired. According to the Department of Finance, the CalSTRS budget and related processes would come under greater scrutiny if this measure was enacted. For example, mid-year budget augmentations, the administrative establishment of positions, and the development of the Governor's Budget would be subject to review and approval by the Administration. In addition, the Board would use its authority to carry over remaining funds to subsequent years to meet unanticipated fiscal needs. Currently, the Administration and the Legislature defer to the Board for these types of major budget decisions. Under SCA 16, the Board would lose its authority to independently make timely budget-related decisions on behalf of the CalSTRS membership.

The actuarial audits required under this bill do not appear necessary because, as noted above, CalSTRS actuaries currently perform an actuarial audit periodically when a new consulting actuary is hired. However, additional audits may help satisfy the Legislature and/or the Governor that CalSTRS is correctly representing the funding status of the retirement programs.

FISCAL IMPACT

Benefit Program Costs – None.

Administrative Costs – Minor and absorbable ongoing administrative costs related to increased reporting and oversight activities. There could be costs of up to $100,000 every five years if CalSTRS was required to fund the actuarial audits authorized in this measure.

RECOMMENDATION

Neutral, if amended to delete the change in the Board’s budget authority.

Attachment 14
Regular Meeting Item-9a
May 4, 2000

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY – REGULAR BOARD
1999-2000 Regular Session – April 18, 2000

BILL NO. >>> **STATUS** <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

AB 107

AUTHOR: Assembly Member Knox
TITLE: Tobacco divestment
AMENDED: 2/29/00
LOCATION: Senate PE&R
BOARD POSITION: Oppose (Staff recommendation)

SUMMARY: Prohibits new or additional investments in tobacco companies by CalSTRS and CalPERS on and after January 1, 2001 and total divestment by July 1, 2002.

COSTS: Benefit program – None.

Administrative – Pending

P – CFT, CTA, State Treasurer, UTLA

O – None Known

AB 141

AUTHOR: Assembly Member Knox
TITLE: Expands earnings limit for vacant administrative positions
AMENDED: 4/4/00
LOCATION: Senate Appropriations
BOARD POSITION: Support (Staff recommendation)

SUMMARY: Expands the current earnings limit exemption for an additional six months for retired members who are hired to fill administrative positions on an emergency basis.

COSTS: Benefit program – No actuarial impact. Insignificant foregone actuarial gain.

Administrative – Minor and absorbable.

P – CASBO (sponsor)
O – Unknown

AB 429

AUTHOR: Assembly Member Correa
TITLE: Gainsharing
AMENDED: 5/20/99
LOCATION: Senate Appropriations
BOARD POSITION: Sponsor*

SUMMARY: Authorizes the Board to allocate excess investment earnings to provide statutorily authorized benefits to active and retired program members, after setting aside funds for a reasonable reserve.

COSTS: Benefit program – Potentially billions of dollars from surplus assets, depending on the availability of funds

Administrative – Costs will vary dependent on the benefit enhancement funded with the gainsharing revenue

P – ACSA, CRTA, SSDA

O – None known

AB 816

AUTHOR: Assembly PER&SS
TITLE: CalSTRS technical housekeeping
AMENDED: 2/24/00
LOCATION: Senate PE&R
BOARD POSITION: Sponsor*

SUMMARY: Makes technical changes to the Teachers' Retirement Law to clarify existing provisions and eliminate superfluous provisions.

COSTS: Benefit program – None

Administrative – None

P – None known

O – None known

AB 820

AUTHOR: Assembly PER&SS
TITLE: Partial redeposits of withdrawn contributions and board waiver of options provisions
AMENDED: 1/3/00
LOCATION: Senate PE&R
BOARD POSITION: Support, if amended*

SUMMARY: Authorizes a CalSTRS member to redeposit a portion of contributions previously refunded. Permits the Board to waive options provisions if there is no material impact on the fund.

COSTS: Benefit program – Minor actuarial impact on TRF

Administrative – Minor and absorbable

P – CRTA, CTA (Co-Sponsors)

O – None known

AB 821

AUTHOR: Assembly PER&SS
TITLE: Highest year final compensation
AMENDED: 1/10/00
LOCATION: Senate Appropriations
BOARD POSITION: Support, if amended*

SUMMARY: Bases final compensation on the highest average annual compensation earnable by a member during a consecutive 12-month period of employment rather than on the highest average earnable compensation during any period of three consecutive school years.

COSTS: Benefit program – Amortized total cost of $5,114 million over 30 years.

Administrative – One time absorbable implementation costs of approximately $50,000

P – ACSA, CFT, CTA & UTLA (Co-Sponsors), FACCC, CSBA, California Independent Public Employees Legislative Council

O – None known

AB 1733

AUTHOR: Assembly Member Wildman
TITLE: Elimination of postretirement earnings limit
AMENDED: 3/30/00
LOCATION: Assembly Appropriations
BOARD POSITION: Support (Staff recommendation)

SUMMARY: Eliminates the earnings limitation.

COSTS: Benefit program – No actuarial impact. Foregone actuarial gain estimated at $1.2 million per year.

Administrative – Minor and absorbable

P – CTA (Sponsor)

O – None known

AB 1736

AUTHOR: Assembly Member Ducheny
TITLE: Postretirement earnings exemption for K-12 remedial instruction teachers
LOCATION: Assembly Appropriations
BOARD POSITION: Support (Staff recommendation)

SUMMARY: Exempts from the earnings limit a member who retired from service on or before July 1, 2000 and returns to a K-12 classroom to provide direct remedial instruction to pupils.

COSTS: Benefit program – No actuarial impact. Foregone actuarial gain insignificant.

Administrative – Minor and absorbable.

P – None known

O – None known

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

AB 1933

AUTHOR: Assembly Member Strom-Martin
TITLE: Career bonus enhancement/Rule of 85/Service-based retirement
LOCATION: Assembly Appropriations
BOARD POSITION: Support, if amended (Staff recommendation)

SUMMARY: Increases the career bonus for members with 29 or more years of credited service who retire on and after January 1, 2001, and pays a retirement allowance equal to 2.4 percent of final compensation per year of credited service if the member's retirement age and years of service total at least 85. Also requires CalSTRS to conduct a study of retirement system where age is not a factor in determining allowance.

COSTS: Benefit program – Total cost of $4,046 million over 30 years for career bonus; total cost of $3,989 million over 30 years for Rule of 85

Administrative – Minor and absorbable

P – CTA (sponsor)

O – None known

AB 2100

AUTHOR: Assembly Member Dutra
TITLE: Approval of state agency Internet content
AMENDED: 3/29/00
LOCATION: Assembly CP, GE & ED
BOARD POSITION: Oppose, unless amended (Staff recommendation)

SUMMARY: Establishes the California Internet Portal Management Authority within the Department of Information Technology under the direction of the Chief Information Officer. Requires approval of any information posted on Internet by state agency after June 30, 2002.

COSTS: Benefit program – None.

Administrative – Minor and absorbable.

P – None known

O – None known

AB 2118

AUTHOR: Assembly Member Bock
TITLE: Public retirement systems merger study
AMENDED: 4/10/00
LOCATION: Assembly Appropriations
BOARD POSITION: Pending

SUMMARY: Requires CalSTRS and CalPERS to conduct a feasibility study on merging the systems and present the study to the Legislature on or before December 31, 2001.

COSTS: Benefit program – No impact

Administrative – Pending

P – None known

O – None known

AB 2201

AUTHOR: Assembly Member Honda
TITLE: Highest year final compensation
LOCATION: Assembly Appropriations
BOARD POSITION: Support, if amended (Staff recommendation)

SUMMARY: Provides 2 percent at age 55 retirement formula, highest year final compensation for all CalSTRS members, compounded COLA; 80 percent purchasing power and election of CalSTRS members to 13-member Board.

COSTS: Benefit program – Amortized over 30 years: 2 percent at age 55 ($8.95 billion); highest year compensation ($5.11 billion); Compounded COLA ($3.4 billion). 80 percent purchasing power, annual costs: (2003-2004, $76.2 million; 2004-2005, $82.5 million; 2005-2006, $88.0 million)

Administrative – Up to one time cost of $92,000 for additional staff workload and one time cost of about $25,000 for computer system modifications.

P – CTA (Sponsor, AARD State Legislative Committee, ACSA, CFT

O – None known

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY – REGULAR BOARD
1999-2000 Regular Session – April 18, 2000

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

AB 2226

AUTHOR: Assembly Member Mazzoni
TITLE: Employer "pick-up" of member contributions
LOCATION: Not yet assigned in Assembly
BOARD POSITION: Pending

SUMMARY: Makes a technical change to the employer "pick-up" of member contributions to CalSTRS Defined Benefit Program.

COSTS: Benefit program – Pending

Administrative – Pending

P – None known

O – None known

AB 2383

AUTHOR: Assembly Member Keeley
TITLE: Part-time participation in CalPERS healthcare program
AMENDED: 4/6/00
LOCATION: Assembly Appropriations
BOARD POSITION: Pending

SUMMARY: Expands eligibility under the Public Employees Medical and Hospital Care Act (PEMCHA) administered by CalPERS to authorize contracting agencies and school employers to include certain employees who work less than half time, as specified, for coverage under PEMCHA.

COSTS: Benefit program – Pending

Administrative – Pending

P – Unknown
O –Unknown

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

AB 2456

AUTHOR: Assembly Member Wright
TITLE: Deferred Retirement Option Program
LOCATION: Assembly Appropriations
BOARD POSITION: Support, if amended (Staff recommendation)

SUMMARY: Establishes the Deferred Retirement Option Plan as a voluntary supplemental benefit program in the Defined Benefit Program to provide a lump sum payment upon retirement in addition to the monthly retirement allowance.

COSTS: Benefit program – Unknown actuarial cost.

Administrative – Estimated initial one-time costs of approximately $500,000 to establish necessary administrative and actuarial procedures and ongoing costs of $500,000 annually for increased education and counseling of members in the program.

P – None known

O – None known

AB 2689

AUTHOR: Assembly Member Corbett
TITLE: Direct contracting of teacher health care benefits
LOCATION: Assembly Education
BOARD POSITION: Pending

SUMMARY: Declares the Legislature's intent to establish a pilot program to offer direct contracting for health care coverage for selected school districts.

COSTS: Benefit program – Pending

Administrative – Pending

P – None known

O – None known

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

AB 2700

AUTHOR: Assembly Member Lempert
TITLE: Creditable compensation
LOCATION: Assembly Appropriations
BOARD POSITION: Sponsor, if amended

SUMMARY: Makes all compensation for creditable service creditable to the State Teachers' Retirement Plan. Requires the Board to develop and administer a supplemental benefit program for member and employer contributions with service in excess of 1.000 years per school year.

COSTS: Benefit program – Total net costs of $338 million over a 30-year period.

Administrative – Undetermined net cost.

P –CTA

O – None known

AB 2745

AUTHOR: Assembly Member Kaloogian
TITLE: Public retirement fund investments in national security
LOCATION: Assembly PER&SS
BOARD POSITION: Oppose* (Staff recommendation)

SUMMARY: Requires CalSTRS and CalPERS to report on potential investments in foreign companies that pose a threat to national security.

COSTS: Benefit program – No impact

Administrative – Minor and absorbable

P – None known

O – None known

CALIFORNIA STATE TEACHERS’ RETIREMENT SYSTEM
LEGISLATIVE SUMMARY – REGULAR BOARD
1999-2000 Regular Session – April 18, 2000

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

AB 2839

AUTHOR: Firebaugh
TITLE: 2 percent at age 55
AMENDED: 4/11/00
LOCATION: Assembly Appropriations
BOARD POSITION: Support, if amended (Staff recommendation)

SUMMARY: Provides a 2 percent at age 55 retirement benefit formula for members retiring on or after January 1, 2001.

COSTS: Benefit program – Total costs of $8.95 billion over 30 years.

Administrative – Up to $92,000 one time for additional staff workload and one time cost of about $25,000 for computer system modifications.

P – CFT

O – None known

SB 1435

AUTHOR: Senator Johnston
TITLE: Payment of Medicare Part A premiums by CalSTRS members
LOCATION: Senate PE&R
BOARD POSITION: Sponsor*

SUMMARY: Increases allowances paid to retired members by the amount of the Medicare Part A premium if the member is not eligible for Medicare Part A coverage on a premium free basis.

COSTS: Benefit program – Total costs of $994 million over 15 years.

Administrative – Minor and absorbable.

P – CalSTRS (Sponsor)

O – None known

* Approved by the Board

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

SB 1505

AUTHOR: Senator Alarcon
TITLE: Earnings limit exemption for K-12 teachers
AMENDED: 4/13/00
LOCATION: Senate Education
BOARD POSITION: Support (Staff recommendation)

SUMMARY: Provides exemption from earnings limitation for CalSTRS members who have retired from service on or before January 1, 2000 and are employed in direct classroom instruction or programs providing support to new teachers and teachers participating in specified programs.

COSTS: Benefit program – No actuarial impact. Foregone actuarial gain insignificant.

Administrative – Minor and absorbable.

P –None known

O – None known

SB 1692

AUTHOR: Senator Ortiz
TITLE: Enhanced benefits for pre-1999 retirees
LOCATION: Senate Rules
BOARD POSITION: Pending

SUMMARY: States legislative intent to provide enhanced benefits to pre-1999 retirees who return to teaching.

COSTS: Benefit program – Pending.

Administrative – Pending.

P – A.R.E., F.A.I.R.

O – None known

SB 1693

AUTHOR: Senator Ortiz
TITLE: 80 percent purchasing power
LOCATION: Senate PE&R
BOARD POSITION: Support (Staff recommendation)

SUMMARY: Increases purchasing power protection to retired CalSTRS members and beneficiaries from 75 percent to 80 percent

COSTS: Benefit program – Total annual costs: 2001-2002, $62.8 million; 2002-2003, $69.5 million; 2003-2004, $76.2 million

Administrative – Minor and absorbable

P – CRTA

O – None known

SB 1694

AUTHOR: Senator Ortiz
TITLE: CalSTRS/CalPERS Membership Election
LOCATION: Senate PE&R
BOARD POSITION: Support if amended (Staff recommendation)

SUMMARY: Allows a CalSTRS member who becomes employed by the State to elect to remain with CalSTRS, and a State CalPERS member who becomes employed to perform CalSTRS-covered service to remain with CalPERS.

COSTS: Benefit program – No net liability.

Administrative – None

P – None known

O – None known

SB 1928

AUTHOR: Senator Haynes
TITLE: Capital Markets Task Force
AMENDED: 3/27/00
LOCATION: Senate PE & R
BOARD POSITION: Oppose (Staff recommendation)

SUMMARY: Creates a task force to oversee and review investments by CalSTRS and CalPERS for purposes of identifying human rights, national security concerns and other social concerns that could affect investment performance.

COSTS: Benefit program – None

Administrative – Probably no significant direct costs for task force.

P – None known

O – None known

SB 2105

AUTHOR: Senator Lewis
TITLE: Reporting for charter schools
LOCATION: Senate Education
BOARD POSITION: Support, if amended (Staff recommendation)

SUMMARY: Expands reporting by charter schools to CalSTRS.

COSTS: Benefit program – None

Administrative – Minor and absorbable

P – CNEC

O –CTA

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

SB 2122

AUTHOR: Senator Ortiz
TITLE: Joint Retirement System Investment Advisory Board
LOCATION: Senate PE&R
BOARD POSITION: Oppose (Staff recommendation)

SUMMARY: Creates advisory board to make recommendations to CalSTRS and CalPERS on asset allocation and active versus passive investments.

COSTS: Benefit program – None

Administrative – Pending

P – None known

O – None known

SCA 16

AUTHOR: Senator Burton
TITLE: Support budget appropriations for CalSTRS and CalPERS
LOCATION: Senate PE&R
BOARD POSITION: Pending

SUMMARY: Requires the Legislature to review and approve budget appropriations for CalSTRS and CalPERS and permits the Governor and/or Legislature to perform actuarial audits of CalSTRS and CalPERS every five years.

COSTS: Benefit program – None

Administrative – Minor and absorbable

P – None known

O – None known

L E G E N D OF ABBREVIATIONS

P = PROPONENTS O = OPPONENTS

ABBREVIATION	ORGANIZATION
AALA	Associated Administrators of Los Angeles
ACCCA	Association of California Community College Administrators
ACSA	Association of California School Administrators
AFSCME	American Association of State, County and Municipal Employees
AFT	American Federation of Teachers
AGENCY	State and Consumer Services Agency
A.R.E.	Association of Retirees for Equity
ART	Association of Retired Teachers
BOE	Board of Equalization
BOG	Board of Governors, California Community Colleges
Cal-Tax	California Taxpayers Association
CalPERS	California Public Employees Retirement System
CalPIRG	California Public Interest Research Group
CalSTRS	California State Teachers' Retirement System
CASBO	California Association of School Business Officers
CCA	Community College Association
CCAE	California Council for Adult Education
CCC	California Community Colleges
CFA	California Faculty Association
CFT	California Federation of Teachers
CNEC	California Network of Educational Charters
CPCA	California Police Chiefs' Association
CPFFA	California Professional Firefighters Association
CRTA	California Retired Teachers Association
CSAC	California State Association of Counties
CSBA	California School Boards Association
CSEA	California School Employees Association
CSL	California Senior Legislature
CSU	California State University
CTA	California Teachers Association
DOE	Department of Education
DOF	Department of Finance
DGS	Department of General Services
DPA	Department of Personnel Administration
FACCC	Faculty Association of California Community Colleges
F.A.I.R.	Faculty Attempting to Improve Retirement
FCPHE	Faculty Coalition for Public Higher Education
FTB	Franchise Tax Board
LADSA	Los Angeles Deputy Sheriffs' Association
LAUSD	Los Angeles Unified School District
OCDE	Orange County Department of Education

L E G E N D OF ABBREVIATIONS

P = PROPONENTS O = OPPONENTS

ABBREVIATION	**ORGANIZATION**
PARS	Public Agency Retirement System
PERF	Public Employees Retirement Fund
RPEA	Retired Public Employees Association
SACRS	State Association of County Retirement Systems
SBMA	Supplemental Benefit Maintenance Account
SDCOE	San Diego County Office of Education
SEIU	Service Employees International Union
SLC	State Lands Commission
SSC	School Services of California
SSDA	Small School Districts' Association
START	State Teachers’ Automation Redesign Team
TRB	Teachers' Retirement Board
TRF	Teachers' Retirement Fund
TRL	Teachers' Retirement Law
UTLA	United Teachers of Los Angeles

STANDING COMMITTEES OF THE ASSEMBLY/SENATE

Assembly PER&SS	Assembly Public Employees, Retirement and Social Security
Senate PE&R	Senate Public Employment and Retirement